ISSUE DATE:October 2, 1995

DOCKET NO. G-002/M-95-289

ORDER APPROVING CIP ADJUSTMENT

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs	Chair
Tom Burton	Commissioner
Marshall Johnson	Commissioner
Dee Knaak	Commissioner
Don Storm	Commissioner

In the Matter of Northern States Power Company's Petition for Approval of an Annual Recovery Mechanism for Conservation Improvement Program Expenses

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PROCEDURAL HISTORY

On March 31, 1995, Northern States Power Company - Gas Utility (NSP or the Company) filed for an annual Conservation Improvement Program (CIP) adjustment mechanism.

On May 1, 1995, the Minnesota Department of Public Service (the Department) filed comments on the Company's petition.

On May 10, 1995, NSP filed a Response.

On September 7, 1995, the Commission met to consider this matter.

FINDINGS AND CONCLUSIONS

A. NSP's Proposed Adjustment Mechanism

NSP's proposed mechanism would recover conservation expenditures based on a charge per unit of consumption, calculated for each customer class according to the allocation of conservation expenses in the Company's most recent general rate case, Docket No. G-002\GR-92-1186. The CIP adjustment Factor would be applied to monthly bills prior to the calculation of sales tax and any local fees or assessments. Revenues thus collected would be subtracted from the current tracker balance.

B. Department's Recommendation

The Department noted that NSP's CIP expenditures exceed its annual recovery by nearly $2 million per year. The Department recommended that the Commission approve the adjustment mechanism with the following modifications:

- allow lost margins to be recovered on a historical basis only, not on a forecasted basis as proposed by the Company;
- require the CIP tracker balances to be trued-up on an annual basis through the CIP Adjustment so that will not have to be zeroed in rate cases; and
- require NSP to calculate the true-up as agreed by the CIP Adjustment Implementation Study Group.

C. The Commission's Analysis

1. Bonuses

The Commission has consistently found that ***bonuses*** as part of financial incentives are speculative and should only be recovered after they have been earned. This is because bonuses are based on performance and it is impossible to assess the utility's performance before its annual program has been completed.

In this case, subsequent to the Company's filing, the Commission approved bonuses of $3,909 for 1992-93 and $21,457 for 1993-94 in an Order dated May 5, 1995 in Docket No. G-002/M-92-516. Accordingly, the Company will be permitted to include those amounts in its calculation of the annual CIP Adjustment.

2. Historical vs. Estimated Margins

Recovery of ***lost margins***, however, are considered to be the removal of a disincentive, rather than a positive bonus that is tied to or the consequence of performance. Unlike its policy for ***bonuses***, the Commission has not definitively stated that lost margins may only be recovered when proven. However, a goal of the CIP adjustment is to collect, as closely as possible, current CIP costs. In addition, permitting recovery of the lost margins in the monthly CIP adjustment would reduce the carrying charges paid by ratepayers on these margins. A safeguard for this is that recovery of these amounts are subject to correction.

Based on these considerations, the Commission will allow NSP to include estimated lost margins in its annual CIP Adjustment.

3. Necessity of an Annual True-up

In response to the Department's recommendation that the Commission require an annual true-up in lieu of zeroing out the CIP tracker balances in rate cases, NSP clarified that since its CIP adjustment is "self-adjusting," no separate true-up calculation is needed.

The Commission finds that the Company's explanation is correct. As proposed by the Company, expenditures and collections are tracked throughout the year and each year the adjustment is recalculated using the current tracker balance and projected annual expenditures.

4. Variance to Combine the CIP Adjustment With the PGA

NSP requested variances from Minn. Rules, Parts 7825.2700 and 7820.3500 (k) so that it could show the CIP Adjustment and the purchased gas adjustment (PGA) combined in one figure on the bill. The rules cited require that the PGA be itemized and stated separately on the customer's bill.

The Commission will grant the requested variances because grounds exist to do so under Minn. Rules, Part 7829.3200. Enforcing the rules would make the bills unduly complex and difficult to read. The public interest is not undermined by granting the variance since all the information needed to compute the bill will be available to customers and there are no statutory provisions prohibiting the combination of these adjustments.

5. Timing of the Adjustment

NSP's petition requested that the adjustment be applied with June 1995 bills. Although the actual implementation date (the issuance date of this Order) is several months beyond that date, the Commission will not require recalculation of the adjustment based on the later implementation date. When NSP makes its May 1, 1996 filing, the tracker balance and adjustment will be recalculated. Unrecovered amounts from this year will be included in the new adjustment calculation.

ORDER

1. Variances from the single display requirement of Minn. Rules, Parts 7825.2700 and 7820.3500 (k) are granted.

2. The CIP Adjustment as proposed by Northern States Power Company - Gas Utility (NSP or the Company) is approved, as modified in this Order. The Adjustment shall be effective the date of this Order and shall apply to all usage charged in bills issued in the earliest possible billing cycle after the date of this Order.

3. NSP shall recalculate its adjustment factors, reflecting the inclusion of the bonuses approved in the May 5, 1995 Order, and file its recalculation within 15 days of this Order.

4. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)